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Persian Gulf in 1985

Summary

The Persian Gulf region will remain a crisis prone area throughout the coming year because of conflicting political and military objectives among regional states, deep economic and societal problems and the stresses associated with economic modernization and religious fundamentalism. These forces could lead to developments that threaten the stability of some area states as well as vital US interests. The primary issues of concern will be:

- The Iran-Iraq war where the tanker war has escalated during the past two months and is likely to get worse.
- The impact of continued economic recession as a result of the soft oil market and the possibility of a major decline in world oil prices.
- Increased terrorist activity against US interests or important targets in states friendly to the US.
- Leadership changes as a result of death from old age, illness or assassin's bullet; most likely in Iran and the UAE, possible in Iraq and Saudi Arabia.

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This paper was prepared by the Persian Gulf Division, Office of Near Eastern and South Asian Analysis. Comments and queries are welcome and may be directed to the Chief, Persian Gulf Division, NESA, [redacted]

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The Iran-Iraq War

The Iran-Iraq war is likely to continue throughout 1985. Although Iraq remains ready to explore ways to end the conflict, Iran's insistence on a change of regime in Iraq will continue to stymie negotiating efforts. Even if Ayatollah Khomeini dies, an abrupt softening of Iran's position is unlikely.

The ground conflict probably will be marked by periodic, but limited, attacks by both sides reflecting Tehran's weakened military capabilities and the increasing strength of the Iraqi armed forces. In December Iraq resumed attacks on tankers in the Gulf at record levels as part of its strategy of gradual escalation to reduce Iran's war-making capability. Iraq has sustained this higher level of attempted antiship strikes in recent weeks, but only a limited number of tankers have been hit and these attacks do not appear to have had a significant impact on Iranian oil exports. Iraqi tanker strikes are likely to escalate this spring and summer. Iran's ability to respond will remain limited, but if Iraq succeeds in significantly reducing Iranian oil exports Tehran is capable of more desperate actions such as terrorist or suicide attacks against key economic targets in other Persian Gulf states.

Economic Problems

The past two years have been the worst in recent history for the economies of the region. Real economic activity has decelerated drastically and even turned negative in a number of countries. Despite budget cuts and import reductions, deficits have developed in domestic budgets and current accounts even in the wealthiest nations. The continuation of the soft world oil market in 1985 will force Gulf countries to make additional spending cuts, increasing the potential for domestic unrest.

By slashing oil production in an effort to maintain OPEC oil prices, Saudi Arabia has seen its oil revenues plummet from over \$100 billion in 1982 to only \$36 billion last year. Riyadh has attempted to cope with this decline by delaying payments to contractors, curbing new expenditures, drawing down foreign assets, and curtailing foreign aid. The royal family, however, has not curbed its profligate spending, and this has caused a good deal of grumbling, much of it aimed at the King. Saudis have become accustomed to a wide range of government subsidies and improvements in living standards, and belt tightening will generate more vocal public complaints, especially if the royal family does not limit its spending.

Economic problems resulting from lower oil revenues and mismanagement continue to be a major source of complaints in Iran, weakening the appeal of the revolutionary regime. The economic problems are causing labor unrest that could have major political implications if the succession to Ayatollah Khomeini does not go smoothly. Tehran's economic problems will greatly increase if Iraq is successful in discouraging tankers from calling at Khark Island. Iraq has financed the war and maintained imports of essential consumer goods by drawing on foreign assets and aid from Arab states. Even with continued Arab financial support, Baghdad faces a major revenue shortfall and will need to reschedule at least \$3 billion in foreign loan payments this year.

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A major oil price decline would have significant ramifications for the area. Iraq would be the most seriously affected since it will have no ready means of increasing exports to compensate for lower prices at least until the oil pipeline through Saudi Arabia is completed sometime next year. If Baghdad faces revenue shortfalls and austerity-induced unhappiness with President Saddam Husayn while Iran maintains earnings by boosting exports, we would expect Iraq to intensify attacks against Iranian oil shipments and perhaps oil facilities. Iran would have to respond to these attacks.

The Saudis probably are ill-prepared to deal with the economic reversals that would stem from a major oil price decline. Although they still have about \$105 billion in usable official foreign assets, they do not want reserve drawdowns to accelerate because reserves are considered an endowment for future generations. At the same time, a sharp drop in the Saudi standard of living would undermine confidence in the regime and over time could threaten its hold on power.

Increased Terrorist/Subversive Activity

Stymied on the battlefield, Iran will step up its support to Iraqi Kurdish rebels. This will have important implications for stability in Eastern Turkey and could affect US interests there. A harsh Turkish crackdown could result in a human rights campaign against Turkey in Western Europe and the US, and could provoke even more resentment among Turkish Kurds against the government in Ankara.

Iran also will continue to employ terrorism as a means of influencing regional developments and intimidating its adversaries. US and Iraqi targets will remain high on the Iranian hit list in the Middle East. The tough US stance against terrorism could result in an even more confrontational attitude by Iran toward the US. Iraq is denouncing Syria and Iran for several recent terrorist attacks in Baghdad. The Iraqis will retaliate and US facilities and personnel could get caught in an escalating cycle of terrorist violence between Syria, Iran and Iraq. If Tehran suffers sharp reverses in the ground war or Iraqi tanker attacks succeed in significantly reducing Iranian oil exports, increased terrorist activity probably would be directed at Iraq's allies in the Gulf. Iran also could attempt to foment greater Shia activism in Bahrain, Kuwait, and Saudi Arabia, generating sharper threats to these moderate regimes. These activities would create greater pressures for more direct US assistance against the Iranian threat, but paradoxically also could induce the Gulf States to distance themselves even more from broader US Middle East policies.

Leadership Changes

Iran's Khomeini could well die or become incapacitated during 1985, unleashing a power struggle that eventually could change the complexion of the regime. Although the initial transition of power could go relatively smoothly, with Ayatollah Montazeri or a clerical coalition maintaining continuity, over the longer term factional infighting is likely to increase and create greater instability. In the UAE the sons of the Federation's elder statemen are assuming greater power, but their abilities to control the fractious impulses that are evident in the UAE are questionable. The

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succession issue is particularly pressing in Dubai where Shaykh Rashid is in poor health.

Other leadership changes in the region are less likely but could occur. At this point economic problems and complaints about lack of leadership do not threaten Fahd's rule in Saudi Arabia. If Fahd were to die, we would anticipate a smooth transition to Crown Prince Abdallah. Abdallah would continue most of Fahd's policies but would be more nationalistic and less pro-Western in his outlook. The deaths of Fahd and Abdallah, and perhaps other Saudi leaders, in a terrorist incident would have a severely destabilizing impact on this important ally of the US.

Iraqi President Saddam Husayn is a more likely candidate for assassination and has no designated successor. Unless replaced by a leader with equal cunning and ruthlessness, Iraq could be beset by the factiousness that characterized the country before Saddam became President in 1979. In the most likely succession scenario, a collegial type leadership would emerge that would retain Saddam's main policy goals, but relations with the US probably would cool. A Shia-based revolution in Iraq is unlikely, but if it occurred, Iraqi policies would be similar to those of Iran with serious consequences for the US and pro-US moderate Arab states in the region.

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